

USAID INSIGHT

UKRAINE: ONE STEP FROM WTO

After a dozen years of negotiating accession to the World Trade Organization (WTO), Ukraine is one step from integrating into the multilateral trading system administered by this inter-governmental organization. Ukraine has largely fulfilled all WTO required policy and legal reform and concluded bilateral market access negotiations on goods and services with most trading partners. Ukraine's accession is imminent in 2006, perhaps as soon as the first half of the year.

WTO membership is consistent with Ukraine's commitments to regional trade and will strengthen Ukraine's trade relations and position with neighboring states. WTO membership will facilitate free trade arrangements with the European Union and other developed economies.

By acceding to the WTO, Ukraine will be joining 148 other countries, accounting for over 95 percent of world trade in goods and services, including all East European countries and seven former Soviet countries (the three Baltic States, Kyrgyzstan, Georgia, Moldova and Armenia). The Russian Federation and Kazakhstan are expected to accede in 2007 should progress toward reform and bilateral negotiations proceed at a reasonable pace.

Ukraine's working party for WTO accession consists of 48 countries, mainly existing and potential trading partners. The



Arseniy Yatseniuk, Minister of Economy of Ukraine, speaks at the Six WTO Ministerial Conference in Hong Kong, December 18, 2006

working party has held 15 meetings since 1995 to examine and suggest changes to the foreign trade regime governing Ukraine's policy, legal, regulatory and institutional framework.

At the last working party meeting on November 23, 2005, WTO Members were extremely satisfied with the progress made in 2005 by Ukraine to comply with the remaining WTO related reform. In 2005, Ukraine amended over 30 laws and adopted over a dozen other legal acts, covering a wide array of subjects including trade policy and procedures, investment policy, customs, intellectual property, food safety, tax policy and subsidization, and standardization. Amendments to 20 other laws and legal acts still need to be passed before all required reforms are completed. This will primarily involve fine tuning a few remaining WTO-inconsistent policies. Most have been submitted to the Parliament and are currently in the final stage of adoption.

This year Ukraine also launched an ambitious program to harmonize its standards with international quality and safety requirements. Ukraine's conformity with the most complicated WTO agreements was accomplished with USAID assistance in advancing the drafting and adoption of key laws and legal acts.

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WTO Fact File

Location:	Geneva, Switzerland
Established:	1 January 1995
Created by:	Uruguay Round Negotiations (1986-1994)
Membership:	149 countries (on Dec. 2005)
Budget:	169 mln. Swiss FR. for 2005
Secretariat Staff:	630
Head:	Pascal Lamy

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WHAT WTO WILL PROVIDE UKRAINE

WTO Membership for Ukraine will result in tremendous benefits, which far outweigh the cost of required reform and adjustments to enable accession. Membership in the WTO is expected to lead to significant improvement in Ukraine's overall economic performance in terms of increase in GDP, investment, production, and trade. The main beneficiaries include Ukrainian producers, service suppliers and consumers.

By becoming a WTO Member, Ukraine will instantly gain trading rights and access that will

allow Ukrainian suppliers of goods and services to increase Ukrainian exports to the markets of WTO members. Ukrainian exports will be provided non-discriminatory treatment in the form of national treatment and most-favored-nation status. Trade restrictive measures (e.g. licenses, quotas) and trade remedies (e.g. anti-dumping) will no longer be applied arbitrarily against Ukrainian exports. Ukrainian sectors that will benefit the most include metal, chemical, textiles and leather, which all currently contribute about 30 percent to total

industrial output. Export, production, employment, and real income are expected to increase in these sectors. Output in the metal, chemical and textile industries is expected to increase respectively by 34 percent, 28 percent and 22 percent within one year, according to Ukraine's Institute for Economic Research and Policy Consulting.

Ukraine's membership in the WTO will send a signal to the international investment community that Ukraine has in place a stable, predictable, transparent, cost-efficient, and non-discriminatory trade and investment environment based on the WTO agreements with which investors are familiar. Investors will gain confidence in investing in Ukraine given that the WTO rules provide greater protection for their rights, particularly intellectual property, and guaranteed access to judiciary and dispute settlement bodies.

Investment will not only create new jobs in Ukraine through the injection of capital, but will allow technology transfer and know-how critical for modernizing production, increasing efficiency, and

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HACCP Training To Benefit Consumers and Business

What is HACCP, why do we need it, and how to implement it – these were the questions asked by Ukrainian food processors and regulators several years ago, when food safety was not yet part of Ukraine's vocabulary. For most industry people, today the answer is obvious: HACCP (Hazard Analysis and Critical Control Points food safety management system) is needed to make your business work, and to ensure food safety for consumers. Moreover, it has become essential if you plan to sell food internationally given that adoption and application of international sanitary and phytosanitary norms are among the key requirements for joining



Discussing HACCP Plan during a group session. Photo by G. Myroniuk

in Kyiv in 2003 as a part of the *Partnership for Food Industry Development Project* (PFID). PFID, in partnership with Louisiana State University Agricultural Center, is play-

Participants about HACCP training

Antonina Polischuk, *Chief technologist, Kovel Meat Processing Plant*: "In my more than 30-year experience, I have attended numerous seminars, workshops, conferences and courses. HACCP seminar stands out among others because knowledge and skills acquired can be fully applied in practice. HACCP development

and implementation is something that our industry really needs.

Sergey Matveyev, *Director, Breeze Ltd., Berdyansk*: "This is an excellent training. I have good prospects and see clearly how using HACCP system I can reorganize my plant's operation in a right way."

WTO and accessing the EU market. HACCP not only helps to prevent food-borne diseases, it also supports exploration of new markets. Nearly all international food markets either have already made HACCP a precondition for export, or are completing its implementation.

The International Institute for Food Safety and Quality (IIFSQ) was established

ing a key role in bringing new levels of best practices to Ukraine's food industry, including increasing food safety awareness and developing better laws and regulations. Nonetheless, and training in HACCP food safety management systems.

Certified HACCP training courses offered by IIFSQ give participants indepth knowledge of the hazards associated with

Hong Kong Ministerial

The Sixth WTO Ministerial Conference, a meeting that takes place on average once every 18 months, was held in Hong Kong on December 13-18, 2005. The Ukrainian Delegation, headed by Arseniy Yatseniuk, Minister of Economy, attended the Conference and signed a bilateral protocol on WTO accession with China. This brings the total number of bilateral protocols signed between Ukraine and member states to 40. Among key achievements adopted in Hong Kong was the setting of a deadline to end export subsidies on agriculture and greater access to the 32 least-developed Members, particularly with respect to cotton exports.

certain types of foods, as well as of associated controls. One of the strengths of the training is that it is highly interactive, and includes practical sessions that give hands-on experience in developing HACCP systems. Those who successfully complete final exams are awarded internationally recognized certificates.

To date, IIFSQ has conducted eight Basic HACCP Training courses in Ukraine, Moldova and Azerbaijan, and has trained over 160 individuals, including food processors and regulators. As a result, most industry representatives have applied new HACCP skills to day-to-day operations, improved performance and opened new business opportunities.

WTO ACCESSION REQUIREMENTS

To become a WTO Member, a country should:

Conduct WTO-conformity reform of its policy, legal, regulatory and institutional framework to bring it into conformity with the mandatory WTO agreements and understandings. All WTO Members must adhere to these rules on an equal basis.

Key Agreements include:

- The General Agreement on Tariffs and Trade (GATT)
- The Agreement on Agriculture
- The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS)
- Technical Barriers to Trade (TBT)
- The Agreement on Customs Valuation
- Trade-Related Aspects of Intellectual Property Rights;

- The General Agreement on Trade in Services (GATS)

Conduct bilateral market access negotiations on goods with those WTO Members interested in exporting their goods to Ukraine. The purpose of these negotiations is to make commitments in the form of bound rates (ceilings) on Ukraine's import duties. Once a member, Ukraine cannot exceed these ceilings except in special circumstances: to address balance-of-payments difficulties (with IMF concurrence) and to safeguard, in accordance with the WTO Agreement on Safeguards, domestic producers in case imports threaten or cause them serious injury.

Engage in bilateral market access negotiations on services with WTO members interested in providing trade in services. The purpose of these negotiations is to make commitments on treatment of non-domestic service suppliers and to eliminate market access limitation in sectors of interest to Members; and to bind such commitments.

Conduct multilateral negotiation on agricultural domestic support. The objective of these negotiations is to bind the level of domestic subsidies as a percentage of domestic agricultural production. Once a Member, Ukraine may not exceed the agreed-upon ceiling on agricultural subsidies.

Ukrainian Breeze Ready to Blow into the EU market

Problem: As Ukraine enters the WTO global trade market, Ukrainian food processors need to meet a key export precondition to ensure the safety of the food they process.

Ukrainian *Breeze Ltd.*, a fish-processing plant in Berdyansk City, Zapoizhnia Oblast, is an industry leader not only in the Azov Sea Basin, but in the entire country. With its own fishing fleet, *Breeze* is involved in the full cycle of food manufacturing — from fish harvesting to refrigerating/freezing, and value-added processing (canning). Its products are in high demand among national consumers. With an established position on the domestic market, *Breeze* management has been exploring external markets. To compete effectively, the company realized that it needed to introduce food safety management principles based on international standards — which most of the world, including the United States, Canada and the EU, require.

Initiative: Assisting Ukrainian food processors to comply with current international trade requirements is one of the goals of the USAID-supported *Partnership for Food Industry Development Project* (PFID). In June 2003, four *Breeze* specialists, including Director Sergey Matveyev, attended the HACCP course. During the course they learned how to improve key



sanitary and hygienic conditions in their facility; control hazards associated with fish products; comply with export/import regulations of other countries; and handle incompliance. In addition they learned how to develop HACCP documents, and had hands-on experience in developing a food safety management system.

Immediately after the training, *Breeze* started to develop and implement its own HACCP food safety system. The plant facility underwent remodeling, including facility design and layout improvements. Floors, walls and ceilings were refurbished with washable tiles to improve the plant's sanitary conditions. Personnel hygiene

practices were addressed, and new utensils and work clothes were purchased.

In 2005, with the EU market as his new target, *Breeze* Director Matveyev asked IIFSQ to provide training for 24 additional plant workers.

Results: Today *Breeze* - with 28 internationally certified HACCP specialists - is a unique fish-processing plant in Ukraine.

Introducing the HACCP system allowed the plant to improve process efficiency and product quality, which in turn increased revenues: *Breeze* was able to demand a price 30 percent higher than its competitors for the various fish products it sold in 2005 without any damage to demand.

In line with HACCP principles, *Breeze* continues to improve its food safety management system. To further motivate his personnel, Matveyev is now introducing an incentive wage, a 30-50 percent increase over current average wages for those employees who best comply with GMP and sanitation procedures.

By adopting and adhering to international standards, *Breeze* is now qualified to receive the European Veterinary Certificate. After a final EU inspection in winter/spring 2006, *Breeze* should become the first Ukrainian fish processor approved to export to the European Union.

ADOPTING STANDARDS MAKES CEREALIA A McDONALD'S SUPPLIER

Cerealia Ukraine Ltd., a member of Cerealia Group Corp., processes and promotes cereal food products. In 1991, the plant made the transition to modern technologies when it installed new APV-Baker fast breakfasts processing lines. Today Cerealia Ukraine is the largest processor of instant breakfasts in Ukraine. Yet, exports make up 24 percent of its production. Cereals of the "Start!" and "AXA" brands are exported to Russia, Georgia, Kazakhstan, Uzbekistan, Moldova, the Baltics and Turkey.

In order to continue to grow, the company faced the challenge of complying with stringent new national food safety regulations and international requirements. Cerealia needed to implement a food safety management system, driven by both the requirements of the large foreign companies they supplied, and their own need to increase output capacity and explore new foreign markets. In



2003, management decided to develop an integrated quality and food safety management system based on international standards.

HACCP implementation began by bringing routine operations into compliance

with the basic requirements of HACCP's Good Manufacturing Practices. Cerealia went through extensive renovations, including redesign of processing areas and reconditioning of obsolete equipment. Changes also involved new work habits and attitudes to implement and maintain rigorous sanitation and hygiene requirements.

Realizing that it would need additional knowledge and expertise, Cerealia sent its specialists to HACCP courses conducted by the Practices International Institute for Food Safety and Quality (IIFSQ). Cerealia also invited IIFSQ staff to offer advice on HACCP system development.

In 2003, as a result of initial HACCP implementation, Cerealia Ukraine became a supplier to McDonald's fast food network in Ukraine. Over two years, it supplied 56.1 tons of puffed rice for McDonald's McFlury ice cream.

ENCOURAGING INNOVATION, DISCOVERY AND INVENTION

In the last five years, Ukraine adopted over 20 laws and legal acts to provide protection to intellectual property rights and comply with WTO requirements. Specific laws have been adopted in Ukraine to protect intellectual property rights (IPR) subjects, including patents, trademarks, copyrights, industrial designs, layout designs of integrated circuits, and variety protection. Ukraine has largely brought its legal framework into line with WTO requirements except for some additionally needed fine tuning in the following two areas: geo-graphical indications and trade secrets.

Although intellectual property rights enforcement improved in 2005, more can be done in this respect. During the first eight months of 2005, over 3,500 protocols related to IPR were drafted, and 325 crimes

were identified. Over 800,000 units of illegally produced IP products were seized. Ukraine is currently drafting legislation to strengthen border enforcement of intellectual property rights.

Protection of intellectual property stimulates human ingenuity to the benefit of society as a whole. Protection is not only necessary to enable WTO accession, but also to encourage innovation, discovery and invention.

The current Ukrainian legal regime governing intellectual property encourages the development of domestic talent and the propagation of literary and artistic creations. In addition, stronger protection is provided to consumers from dangerous and inferior products and to businesses from unscrupulous practices.

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Bilateral negotiations with other countries on market access have been ongoing since the late 1990s. Ukraine has already signed 40 bilateral protocols with countries interested in exporting their goods and/or services to Ukraine, most significantly, with the European Union in 2003. Bilateral negotiations are continuing with eight remaining countries, including Australia and the United States. The remaining bilateral protocols are expected to be signed during the first quarter of 2006. In addition, numerous multilateral meetings on agricultural support have been held in recent years in an effort to settle on

a maximum rate for agricultural subsidies. These negotiations are nearing completion.

Even with the government turmoil of 2005 and the unsettled political environment that normally precedes any parliamentary election, extraordinary momentum was built in 2005 toward enabling accession. Ukrainian authorities at all levels are committed to keeping this momentum and achieving accession as soon as possible. Ukraine has recognized the importance of WTO membership and the associated benefits and opportunities this will bring to the economy of Ukraine, its producers and consumers.

WTO BENEFITS

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improving the quality, safety and competitiveness of Ukrainian exports.

WTO membership will increase access for Ukrainian consumers - including Ukrainian producers as consumers of raw materials - to a wide variety of quality goods and services at competitive prices. Increases in real income and price decreases will better citizens' purchasing power and savings.

Greater trade and investment and higher employment and production will broaden Ukraine's tax base and increase fiscal revenue. The Government of Ukraine will have greater means to improve infrastructure and public services and implement more health, education and environmental programs, which will improve life.

World experience with the multilateral trading system since its establishment in 1947 has been positive. Today countries are seeking to accede and not withdraw from the WTO. The post-accession experience of Ukraine's neighbors is very encouraging. For example, Poland, Lithuania, Latvia, Bulgaria and Romania have all experienced economic growth and an increase in trade and foreign direct investment since accession to the WTO. According to Ukraine's Institute for Economic Research and Policy Consulting, WTO membership could give Ukraine within a year, a nearly 2 percent increase in real GDP, a 14 percent rise in both imports and exports, as well as a 4 percent drop in consumer prices.

CEREALIA TO SUPPLY TO KRAFT

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This year, Cerealia's HACCP compliance helped attract the interest of Kraft Foods Corp, another globally known food producer. Like McDonald's, Kraft Foods makes implementation of the HACCP system a major requirement for its suppliers. Having inspected Cerealia's facilities, Kraft Foods' auditors recognized that Cerealia's food safety system met its criteria. The companies are currently negotiating supply details.

HACCP has also helped Cerealia's output capacity. In 2005, production increased by 18 percent compared to 2004, due to new contracts and higher process efficiency. In 2006 the company plans to increase its capacity by an additional 30 percent and to launch a new pasta processing department designed in accordance with GMP requirements.



The United States Agency for International Development's (USAID) principal mission in Ukraine is to help the country to complete the transition to a broad-based democracy with a market-oriented economy. USAID assistance focuses on the following areas: **Economic Growth, Democracy and Governance, Health and Social Sector.**

Since 1992, the USAID has provided USD 1.9 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social sector reform in the region. To get additional information about other USAID programs in Ukraine please visit the USAID website at: www.usaid.kiev.ua or call Program Office, tel. (044) 537-4630 .